AMAJUBA DISTRICT MUNICIPALITY

Financial Statements

for the year ended 30 June 2017

General Information

Legal Form of Entity	Municipality
Legislation Governing the Municipality's Operations	Municipal Fiance Management Act (Act No.56 of 2003)

Executive Committee

Mayor	Councillor MG Ngubane
Deputy Mayor	Councillor SE Nkosi
Executive Committee - Finance	Councillor MG Ngubane
Executive Committee -Engineering	Councillor SE Nkosi
Executive Committee -Corporate Services	Councillor MM Mdlalose
Executive Committee -Planning & Development	Councillor AP Meiring
Executive Committee -Community Services	Councillor ZC Msibi
Speaker	Councillor AF Rehman
Grading of local authority	Grade 3 Low Capacity
Auditors	Auditor General
Bankers	ABSA Public Sector
Registered office	B9356 Section 1 Madadeni Newcastle 2951
Postal address	Private Bag X6615 Newcastle 2940

Members of Council

Councillor MV Buhali	Councillor MV Molefe
Councillor MA Buthelezi	Councillor VP Mzima
Councillor SB Buthelezi	Councillor RN Ngcobo
Councillor XNM Dladla	Councillor TM Ndaba
Councillor NS Hlatshwayo	Councillor RB Ndima
Councillor NC Khabanyane	Councillor VC Ndlovu
Councillor BV Khumalo	Councillor D Ngwenya
Councillor NP Kumalo	Councillor M Msibi
Councillor MJ Madela	Councillor TM Nzuza
Councillor MG Mlangeni	Councillor MN Ntshangase
Councillor NH Mkhwanazi	
	Inkosi SJ Nkosi
	Inkosi SE Shabalala
	Inkosi M Mbatha
	Inkosi ZG Mabaso
	Inkosi ZP Nzima

Audi Commitee Members	Ms N Mchunu - Chairperson Mr B Dhlamini Ms S Gertze Mr SES Ngwenya Mr MA Ngubane
Chief Financial Officer (CFO)	Mr Mdu Mngomezulu

Index

The reports and statements set out below comprise the financial statements presented:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The Amajuba District Municipality is situated at the Amajuba Building, B 9356, Madadeni, is a category C Municipality established in terms of section 12 (1) of the Municipal Structures Act, No.117 and published in terms of Provincial Goverment Notice 346 on the 19 September 2000. The Local Goverment Operations of the Municipality are assigned by Section 156 and 229 of the South African Constitution and defined specifically in terms of section 83 of the Municipal Structures Act.

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Provincial and National Government for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Provincial and National Governments have neither the intention nor the need to liquidate or curtail materially the scale of funding of the municipality.

The financial statements set out on pages 4 to 51, which have been prepared on the going concern basis, were approved by the accounting officer on 25 August 2017 and were signed on its behalf by:

Accounting Officer
Municipal Manager

Statement of Financial Position as at 30 June 2017

	Notes	2017 R	2016 R Restated
Assets			
Current Assets			
Receivables from non-exchange transactions	7	2 776 861	3 113 496
VAT receivable	8	6 102 938	5 289 580
Consumer debtors	9	16 450 635	11 889 959
Inventory	10	6 926 767	5 483 245
Cash and cash equivalents	11	21 008 587	17 989 672
		53 265 788	**43 765 952**
Non-Current Assets			
Investment property	3	-	485 045
Property, plant and equipment	4	348 429 485	319 879 438
Intangible assets	5	653 956	1 592 909
Investment in associate	6	301 774 505	336 135 307
		650 857 946	**658 092 699**
Total Assets		**704 123 734**	**701 858 651**
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	73 777 346	70 121 248
Unspent conditional grants and receipts	14	7 775 912	13 458 908
Current portion of other financial liabilities	12	785 955	1 433 794
Current portion of finance leases obligation	13	127 812	11 754
Provisions	15	8 419 145	11 174 837
		90 886 170	**96 200 541**
Non-Current Liabilities			
Other financial liabilities	12 & 36	8 103 063	8 162 341
Finance leases obligation	13	167 358	-
Provisions	15	5 163 771	4 996 031
		13 434 192	**13 158 372**
Total Liabilities		**104 320 362**	**109 358 913**
Net Assets		**599 803 372**	**592 499 738**
Net Assets			
Accumulated surplus		**599 803 372**	**592 499 738**

Amajuba District Municipality
Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

	Notes	2017 R	2016 R
Revenue			
Service charges	18	26 054 198	24 422 179
Interest received (trading)	18	3 552 834	2 335 786
Government grants and subsidies	20	222 527 430	198 166 469
Rental income	18	273 789	272 356
Recoveries	18	43 497	8 664
Sundry revenue	18	594 169	491 960
Interest received - investment	26	4 182 193	1 788 345
Public contributions and donations	18	2 000	220 000
Gain on disposal of property, plant and equipment		8 707	-
Gain on disposal of investment property		2 146 534	-
Total revenue		**259 385 351**	**227 705 759**
Expenditure			
Employee related costs	24	80 727 101	81 375 498
Remuneration of councillors	25	4 717 430	4 346 061
Depreciation and amortisation	27	28 861 762	28 791 450
Finance costs	28	936 618	935 897
Debt impairment	9	10 239 302	15 850 580
Repairs and maintenance	48	4 032 740	9 557 525
Bulk purchases	31	13 942 643	13 517 542
Contracted services	30	19 593 516	19 655 398
Contributions to provisions	15	563 252	1 717 899
General expenses	22	53 346 056	51 294 425
LED project costs		-	2 429
Loss on disposal of property, plant and equipment	4	-	430 260
Donated assets - Sportsfields	4	-	2 953 939
Impairment of property, plant and equipment	4	760 494	6 641 627
Total expenditure		**217 720 915**	**237 070 530**
Operating (Deficit) Surplus for the year		**41 664 436**	**(9 364 771)**
Increase (Decrease) in valuation of Investment in Associate		(34 360 802)	(37 668 877)
(Deficit) Surplus for the year		**7 303 634**	**(47 033 648)**

Statement of Changes in Net Assets

	Notes	Accumulated surplus R	Total net assets R
Balance at 30 June 2015		**614 931 295**	614 931 295
Correction of prior period errors Statement of Financial Position		19 034 316	19 034 316
Restated balance at 30 June 2015		**633 965 611**	**633 965 611**
(Deficit) Surplus for the year		(47 033 648)	(47 033 648)
Balance at 30 June 2016		**586 931 963**	**586 931 963**
Correction of prior period errors Statement of Financial Position	36	5 567 775	5 567 775
Restated balance at 30 June 2016	36	**592 499 738**	**592 499 738**
(Deficit) Surplus for the year		7 303 634	7 303 634
Balance at 30 June 2017		**599 803 372**	**599 803 372**

Cash Flow Statement

	Notes	2017 R	2016 R
Cash flows from operating activities			
Receipts			
Sale of goods and services and taxation		15 111 522	18 948 023
Grants		225 494 019	210 421 295
Public contributions and donations		2 000	220 000
Provisions		-	-
Interest income		4 182 193	1 788 345
		244 789 734	231 377 663
Payments			
Employee costs		(82 194 252)	(77 089 870)
Remuneration of councillors		(4 717 430)	(4 346 061)
Suppliers		(92 079 199)	(92 310 331)
Leave payments		(1 258 781)	(667 865)
Changes in net assets - prior year adjustments		(5 567 775)	(752 261)
Finance costs		(936 618)	(791 964)
		(186 754 055)	(175 958 352)
Net cash flows from operating activities	32	**58 035 679**	**55 419 311**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(57 233 892)	(37 732 761)
Proceeds from disposal of property, plant and equipment		9 250	88 900
Proceeds from disposal of investment property		2 631 579	-
Net cash flows from investing activities		**(54 593 063)**	**(37 643 861)**
Cash flows from financing activities			
Receipt (Repayment) of other financial liabilities		(707 117)	133 687
Receipt (Repayment) of finance leases obligations		283 416	(67 335)
Movement in Investment in associate		-	-
Net cash flows from financing activities		**(423 701)**	**66 352**
Net increase/(decrease) in cash and cash equivalents		**3 018 915**	**17 841 802**
Cash and cash equivalents at the beginning of the year		17 989 672	147 870
Cash and cash equivalents at the end of the year	11	**21 008 587**	**17 989 672**

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Consolidation

Entity combinations

The municipality accounts for entity combinations using the acquisition method of accounting. The cost of the entity combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the entity combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the municipality assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for municipality purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Accounting Policies

1.2 Consolidation (continued)

Investment in associates

An associate is an entity over which the controlling entity has significant influence and which is neither a controlled entity nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with Standard of GRAP on Non-current Assets Held-For-Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the municipality's share of net assets of the associate, less any impairment losses.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the municipality's share of net assets of the investee. The surplus or deficit of the municipality includes the municipality's share of the surplus or deficit of the investee.

The municipality's share of the surplus or deficit of the investee is recognised in surplus or deficit.

Distributions received from an investee reduce the carrying amount of the investment.

The most recent available financial statements of the associate are used by the municipality in applying the equity method. When the reporting date's of the municipality and the associate are different, the associate prepares, for the use of the municipality, financial statements as of the same date as the financial statements of the municipality unless it is impractical to do so.

When the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the municipality, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the municipality's financial statements. In any case, the difference between the reporting date of the associate and that of the municipality is more than three months. The length of the reporting periods and any difference in the reporting dates is the same from period to period.

The municipality's financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances.

Deficits in an associate in excess of the municipality's interest in that associate are recognised only to the extent that the municipality has incurred a legal or constructive obligation to make payments on behalf of the associate. If the associate subsequently reports surpluses, the municipality resumes recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in surplus or deficit.

Surpluses and deficits on transactions between the municipality and an associate are eliminated to the extent of the municipality's interest therein.

The controlling entity discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and account for the investment in accordance with the Standard of GRAP on Financial Instruments: Recognition and Measurement from that date, unless the associate becomes a controlled entity or a joint venture, in which case it is accounted for as such. The carrying amount of the date that it ceases to be an associate is regarded as its cost on initial measurement as a financial asset in accordance with the Standard of GRAP on Financial Instruments: Recognition and Measurement

Jointly controlled entities

An interest in a jointly controlled entity is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with Standard of GRAP on Non-current Assets Held-For-Sale and Discontinued Operations. Under the equity method, interests in jointly controlled entities are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the municipality's share of net assets of the jointly municipality, less any impairment losses. Surpluses and deficits on transactions between the municipality and a joint venture are eliminated to the extent of the municipality's interest therein.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.4 Property, plant and equipment (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The

decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	Indefinite
Buildings	5 - 30 years
Plant and machinery	5 - 15 years
Furniture and fixtures	7 - 10 years
Office equipment	3 - 10 years
Specialised Vehicles	10 -15 years
Other Vehicles	3 - 7 years
IT equipment	3 - 5 years
Computer software	3 years
Infrastructure	
Water and Sewerage	5 - 55 years

Accounting Policies

1.4 Property, plant and equipment (continued)

Community	
Recreational Facilities	15 - 30 years
Buildings	5 - 30 years
Other property, plant and equipment	2 -10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.
An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the
The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Accounting Policies

1.5 Intangible assets

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.
as intangible assets.
Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised
Internally generated goodwill is not recognised as an intangible asset.
Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item
Computer software, internally generated
Computer software, other

Intangible assets are derecognised:
on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

1.6 Investment property
Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.
Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.
Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.
Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property.
If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.
Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.7 Financial instruments

Classification
The municipality classifies financial assets and financial liabilities into the following categories:
• Held-to-maturity investment financial assets
• Loans and receivables financial assets
• Available-for-sale financial assets
• Financial liabilities measured at amortized cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Recognition
Financial assets and financial liabilities are initially recognized on the statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

Measurement
When a financial asset or financial liability is recognized initially, the municipality measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.
If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs.
It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Accounting Policies

1.7 Financial instruments (continued)

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.
The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the municipality applies the following to determine the amount of any impairment loss:

Financial assets carried at amortized cost: If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in surplus or deficit.

Financial assets carried at cost: If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial assets: When a decline in the fair value of an available-for-sale financial asset has been recognized in accumulated surplus or deficit and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in accumulated surplus or deficit is reclassified from accumulated surplus or deficit to surplus or deficit as a reclassification adjustment even though the financial asset has not been derecognized.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the municipality has the positive intention and ability to hold to maturity.
Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
Loans and receivables are subsequently measured at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.
Available-for-sale financial assets are subsequently measured at fair value with changes in fair value recognized in accumulated surplus.
Impairment losses, interest income and dividend income are reported in surplus or deficit.

Other financial liabilities
Other financial liabilities are subsequently measured at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Accounting Policies

1.7 Financial instruments (continued)

De-recognition
Financial assets
A financial asset is de-recognized where the contractual rights to receive cash flow from the asset have expired, or the municipality has transferred the asset and the transfer qualifies for de-recognition. A transfer qualifying for de-recognition occurs when the municipality transfers the contractual rights to receive the cash flows of the financial asset. Where the municipality has transferred its rights to the cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the municipality's continuing involvement in the asset.
Financial liabilities
A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Categorization
The municipality has various types of financial instruments and these can be broadly categorized as either financial assets or financial liabilities.
A financial asset is any asset that is:
cash;
a contractual right to receive cash or to receive another financial asset from another entity;
a contractual right to exchange financial instruments on potentially favorable terms;
an equity instrument of another entity;
a contract that may or will be settled in the entity's own equity instruments (subject to certain conditions).
The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:
Loans and receivables
Consumer debtors
Other receivables
Call investment deposits
The financial assets of the municipality are classified as follows into one of the four categories allowed by this standard:

Type of financial asset	**Classification in terms of GRAP 104**
Loans and receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other receivables	Loans and receivables
Call investment deposits	Available for sale

A financial liability is any liability that is:
- a contractual obligation to deliver cash or to deliver another financial asset;
- a contractual obligation to exchange financial instruments on potentially unfavorable terms;

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:
Long term liabilities
Trade and other payables
Consumer deposits
Unspent conditional grants
Bank overdraft

There are two main categories of financial liabilities, classified based on how they are measured.
Any other financial liabilities are classified as financial liabilities that are not measured at fair value through profit or loss.
The financial liabilities of the municipality are classified only as financial liabilities that are not measured at fair value through profit or loss because none of the following instruments are held for trading.

Type of financial liability	**Classification in terms of GRAP 104**
Long term liabilities	Financial liability that is not measured at fair value through profit or loss
Trade and other payables	Financial liability that is not measured at fair value through profit or loss
Consumer deposits	Financial liability that is not measured at fair value through profit or loss
Unspent conditional grants	Financial liability that is not measured at fair value through profit or loss
Bank overdraft	Financial liability that is not measured at fair value through profit or loss

Accounting Policies

1.8 Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs,boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.
The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.
Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.
When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.
The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.
Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.
Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).
Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.
Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.
Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a)the period of time over which an asset is expected to be used by the municipality; or
(b)the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.
The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in Use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.
When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)
If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.
An impairment loss is recognised immediately in surplus or deficit.
When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.
After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss
The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.
A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.
After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
its recoverable amount (if determinable); and
the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation
The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets
Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.
Non-cash-generating assets are assets other than cash-generating assets.
Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).
Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.
Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.
Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.
Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)
Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
Useful life is either:
(a)the period of time over which an asset is expected to be used by the municipality; or
(b)the number of production or similar units expected to be obtained from the asset by the municipality.

Identification
When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.
The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Recognition and measurement
If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.
An impairment loss is recognised immediately in surplus or deficit.
When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.
After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss
The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.
A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.
After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation
The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital
An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Provisions and contingencies

Provisions are recognised when:
the municipality has a present obligation as a result of a past event;
it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
a reliable estimate can be made of the obligation.
The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

1.13 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services
When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
the amount of revenue can be measured reliably;
it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
the stage of completion of the transaction at the reporting date can be measured reliably; and
the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.15 Revenue from non-exchange transactions

1.16 Investment income
Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

1.18 Comparative figures
Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure
Unauthorised expenditure means:
overspending of a vote or a main division within a vote

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure
Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure
Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Accounting Policies

1.21 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. Sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.26 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the financial statements.

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.
Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.28 Employee benefits

Retirement Funds
The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.
The municipality contributes to defined contribution and defined benefit funds. These funds are multi-employer funds

Defined Contribution Funds
Where an employee has rendered services to the municipality during the year, the municipality recognizes the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

Defined Benefit Plans
The municipality does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds as classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved. As a result, paragraph 30 of IAS 19 is applied and such funds are accounted for as defined contribution funds.
To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the municipality will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members
The municipality provides post-retirement benefits by subsidizing the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

Defined contribution plans
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.
Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans
For defined benefit plans the cost of providing the benefits is determined using the projected credit method.
Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.
Past service costs are recognized immediately to the extent that the benefits are already vested, and are otherwise amortized on a straight line basis over the average period until the amended benefits become vested.
To the extent that, at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognized in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognized.
Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the municipality is demonstrably committed to curtailment or settlement.
When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognized as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognized for a reimbursement.
The amount recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, and reduces by the fair value of plan assets.
Any asset is limited to unrecognized actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Accounting Policies

1.28 Employee benefits (continued)

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognize:
- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

Notes to the Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied standards and interpretations which have been published and are only mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 20 - Related Party Disclosures
GRAP 32 - Service Concession Arrangements : Grantor
GRAP 108 - Statutory Receivables
GRAP 109 - Accounting by Principals and Agents

Notes to the Financial Statements

	2017 R	2016 R Restated

7. Receivables from non-exchange transactions

Sundry Debtors	**2 776 861**	**3 243 760**
Less: Allowance for impairment	**-**	**(130 264)**
	2 776 861	**3 113 496**

8. VAT receivable

VAT	**6 102 938**	**5 289 580**

VAT is payable on the receipt basis. Only once payment is received from debtors is VAT paid over to SARS.

9. Consumer debtors

Gross balances		
Water, Sanitation and Other	**48 231 876**	**33 301 634**
Less: Allowance for impairment		
Water, Sanitation and Other	**(31 781 241)**	**(21 411 675)**
Net balance		
Water, Sanitation and Other	**16 450 635**	**11 889 959**

Water, Sanitation and Other		
Current (0 -30 days)	3 717 292	3 155 375
31 - 60 days	1 626 866	1 593 110
61 - 90 days	1 717 616	1 182 038
91 - 120 days	1 797 296	1 198 018
121 - 365 days	10 376 979	8 541 340
> 365 days	28 995 827	17 631 754
	48 231 876	**33 301 634**

Notes to the Financial Statements

9. Consumer debtors (continued)

Summary of debtors by customer classification

	2017 R	2016 R
Consumers		
Current (0 -30 days)	1 855 758	1 561 417
31 - 60 days	1 461 986	1 455 647
61 - 90 days	1 557 644	1 055 254
91 - 120 days	1 539 500	1 063 553
121 - 365 days	9 485 155	7 761 901
> 365 days	25 480 571	14 970 275
	41 380 614	**27 868 047**
Industrial/ commercial		
Current (0 -30 days)	127 510	146 934
31 - 60 days	79 104	5 382
61 - 90 days	74 441	55 047
91 - 120 days	91 337	59 791
121 - 365 days	401 849	388 486
> 365 days	1 092 383	735 704
	1 866 624	**1 391 343**
National and provincial government		
Current (0 -30 days)	1 734 024	1 458 562
31 - 60 days	85 776	80 080
61 - 90 days	85 531	71 737
91 - 120 days	166 460	74 674
121 - 365 days	489 975	431 414
> 365 days	2 422 872	1 925 776
	4 984 638	**4 042 244**
Total		
Current (0 -30 days)	3 717 292	3 166 913
31 - 60 days	1 626 866	1 541 110
61 - 90 days	1 717 616	1 182 038
91 - 120 days	1 797 297	1 198 018
121 - 365 days	10 376 979	8 581 801
> 365 days	28 995 826	17 631 755
	48 231 876	**33 301 634**

Reconciliation of allowance for impairment

	2017 R	2016 R
Balance at beginning of the year	(21 411 675)	(5 691 359)
Contributions to allowance	(10 369 566)	(15 720 316)
Debt impairment written off against allowance	-	-
	(31 781 241)	**(21 411 675)**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Notes to the Financial Statements

	2017 R	2016 R

9. Consumer debtors (continued)

Consumer debtors impaired

As of 30 June 2016, consumer debtors of R21 541 939 (2015: R5,691,359) were impaired and provided for.

10. Inventory

	2017 R	2016 R
Purified water	**6 926 767**	**5 483 245**

The inventory has been valued at the gazetted tariff.

11. Cash and cash equivalents

Cash and cash equivalents included in the statement of financial position comprise the following statement of amounts indicating financial position:

	2017 R	2016 R
Petty cash	3 000	3 000
Bank balances	1 119 896	655 189
Call investment deposits	19 885 691	17 331 483
	21 008 587	**17 989 672**

No cash and cash equivalents (or portions thereof) were pledged as security for any financial liabilities.
No restrictions exist with regard to the use of cash.
No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings.
Although credit quality can be assessed, the municipality did not apply any methods to evaluate the credit quality

The municipality had the following bank accounts

Account number / description

	Bank Statement balance R	General Ledger balance R
30 June 2017		
ABSA BANK - Cheque Account - 405 347 259	1 122 435	1 119 896
Standard BANK - Call Deposit - 068 448 3090 02	641 744	641 744
Standard BANK - Call Deposit - 068 448 3090 03	5 417 632	5 417 632
Standard BANK - Call Deposit - 068 448 3090 06	33 828	33 828
Standard BANK - Call Deposit - 068 448 3090 05	986	986
Standard BANK - Call Deposit - 068 448 3090 04	935 985	935 985
Standard BANK - Call Deposit - 068 448 3090 07	204 117	204 117
Standard BANK - Call Deposit - 068 448 3090 08	137 900	137 900
Standard BANK - Call Deposit - 068 448 3090 10	700 763	700 763
Standard BANK - Call Deposit - 068 448 3090 11	8 296 787	8 296 787
Standard BANK - Call Deposit - 068 448 3090 12	540 470	540 470
Standard BANK - Call Deposit - 068 448 3090 09	57 706	57 706
Investec - Call Deposit - 1100 501686 503	78 395	78 395
Investec - Call Deposit - 1100 501686 505	634 895	634 895
Investec - Call Deposit - 1100 501686 506	775 544	775 544
Investec - Call Deposit - 1100 501686 507	360 218	360 218
Investec - Call Deposit - 1100 501686 508	459 972	459 972
Investec - Call Deposit - 1100 501686 501	583 165	583 165
Investec - Call Deposit - 1100 501686 500	25 584	25 584
Total	**21 008 126**	**21 005 587**

Notes to the Financial Statements

The municipality had the following bank accounts (continued)

Account number / description	Bank Statement balance R	General Ledger balance R
30 June 2016		
ABSA BANK - Cheque Account - 405 347 259	655 189	655 189
Standard BANK - Call Deposit - 068 448 3090 02	3 016 305	3 016 305
Standard BANK - Call Deposit - 068 448 3090 03	5 073 972	5 073 972
Standard BANK - Call Deposit - 068 448 3090 06	1 051 191	1 051 191
Standard BANK - Call Deposit - 068 448 3090 05	3 739 818	3 739 818
Standard BANK - Call Deposit - 068 448 3090 04	567 046	567 046
Nedbank - Call Deposit - 03/7881121424/000001	17	17
Nedbank - Call Deposit - 03/7881121661/000001	4	4
Nedbank - Call Deposit - 03/7881121440/000001	56	56
First National Bank - Call Deposit - 62581801654	412 414	412 414
Nedbank - Call Deposit - 03/7881121424/000002	426	426
First National Bank - Call Deposit - 62586087556	3 465 433	3 465 433
Nedbank - Call Deposit - 03/7881124067/000001	4 799	4 799
Total	**17 986 670**	**17 986 670**

	2017 R	2016 R
12. Other financial liabilities		
Designated at fair value		
DBSA Loan - 61000384	**8 889 018**	**9 596 135**
Less: Current portion	**(785 955)**	**(1 433 794)**
Long term portion	**8 103 063**	**8 162 341**

The financial liability relates to DBSA loans taken over form uThukela Water which are now due and payable by Amajuba DM in terms of the transfer of the water and sanitation function. These loans include interest capitalised as they were not serviced by uThukela Water.

The loans were consolidated into one loan with a repayment period of 10 years. The final repayment date is January 2025

Non-current liabilities		
Designated at fair value	8 103 063	8 162 341

13. Finance leases obligation

Laptops and Tablets	**295 170**	**11 754**
Less: Current portion	**(127 812)**	**(11 754)**
Long term portion	**167 358**	**-**
Opening Balance	11 754	79 089
Additions	377 156	-
Amortisation	(93 740)	(67 335)
Total finance leases obligation	**295 170**	**11 754**
Minimum lease payments due		
- within one year	161 237	11 754
- in second to fifth year inclusive	183 933	-
Present value of minimum lease payments	**345 170**	**11 754**

It is municipality policy to lease certain ICT equipment under finance leases.
The average lease term is 30 months and the average effective borrowing rate was 3.50% average (2016: 3.00%).
Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

Notes to the Financial Statements

	2017 R	2016 R
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
MIG Grant	1 370 522	2 195 225
Department of Public Works Grant	33 382	-
Massification Grant	16 796	16 796
Municipal Systems Improvement Grant (MSIG)	-	-
Disaster Management Centre Grant	-	-
WC/WD Management Grant	1 453	1 453
Finance Management Grant	-	-
ACIP grant - Call Centre	-	-
Councillors Training Grant	79 388	79 388
DWA - Water Service Infrastructure Grant (WSIG)	-	1 249 585
Councillors Training Grant - IDP	350 000,00	-
Water Operating Subsidy Grant	0	830 180
Bulk Water - Goedehoop - Grant	(0)	3 523 861
Cogta - Disaster Management Centre Grant	5 000 000	5 000 000
Rural Transport Roads Grant	383 388	-
Environmental Grant	540 983	562 420
	7 775 912	**13 458 908**
Movement during the year		
Balance at the beginning of the year	13 458 908	6 809 857
Roll overs not approved	(8 649 586)	(401 000)
Prior year adjustments	-	(5 204 775)
Additions during the year	96 334 019	79 031 996
VAT claimed	(11 145 778)	(7 771 532)
Income recognition during the year	(82 221 651)	(59 005 638)
	7 775 912	**13 458 908**

15. Provisions

Reconciliation of provisions

	2017	2016
Staff leave		
Opening balance	10 097 323	6 479 560
Additions	(1 892 423)	4 285 628
Encashed	(1 258 781)	(667 865)
Closing balance	6 946 119	10 097 323
Performance bonuses		
Opening balance	875 175	649 646
Additions	(117 439)	225 529
Reversed	-	-
Closing balance	757 736	875 175
Post retirement medical aid benefit		
Opening balance	921 469	1 127 000
Additions	278 247	
Reversed	-	(205 531)
Closing balance	1 199 716	921 469
Long service awards		
Opening balance	4 276 901	2 579 000
Additions	402 444	1 697 901
Reversed	-	-
Closing balance	4 679 345	4 276 901
Total	**13 582 916**	**16 170 868**
Disclosure:		
Non current	**5 163 771**	**4 996 031**
Current	**8 419 145**	**11 174 837**
	13 582 916	**16 170 868**

Performance bonuses provision

Performance bonuses are paid to employees subject to certain conditions. The provision is a calculation of the amount due to employees at the reporting date. Performance bonuses are measured at face value as it is expected that these would normally be paid shortly after the financial year end once performance evaluations have been completed.

Notes to the Financial Statements

15. Provisions (continued)

Post retirement medical aid benefit
Independent valuers, Arch Actuarial Consulting, carried out a statutory valuation on an annual basis

	2017 R	2016 R
The principal actuarial assumptions used were as follows:		
Discount rate per annum	9,00%	8,74%
Healthcare cost inflation	7,33%	7,79%
Net discount rate	1,55%	0,73%
Examples of mortality rates used were as follows:		
Average retirement age	63	63
Mortality during employment	PA(90)-2	PA-90
The amounts recognised in the Statement of Financial Position were determined as follows:		
Present value of funded obligations	1 199 716	921 469
Fair value of plan assets	-	-
Liability in the Statement of Financial Position	1 199 716	921 469
Disclosure:		
Non current	1 106 194	863 005
Current	93 522	58 464
	1 199 716	921 469
Movements in the defined benefit obligation is as follows:		
Balance at beginning of the year	921 469	1 127 000
Current service cost	-	-
Interest cost	78 035	94 000
Benefit payments	(58 464)	(66 000)
Actuarial gains/(losses)	258 676	(233 531)
Miscellaneous	-	-
Balance at end of year	1 199 716	921 469

Long service awards provision
Independent valuers, Arch Actuarial Consulting, carried out a statutory valuation on an annual basis

		2017	2016
The principal actuarial assumptions used were as follows:			
Discount rate per annum		8,64%	8,79%
General salary inflation		6,46%	7,43%
Consumer price index		8,00%	7,93%
Examples of mortality rates used were as follows:			
Average retirement age		63	63
Mortality during employment		SA 85-90	SA 85-90
Members withdrawn from services:		**Rates**	**Rates**
	Age 20	12%	12%
	Age 25		6.6%
	Age 30	5%	5.1%
	Age 35		3.6%
	Age 40	4%	2.6%
	Age 45		1.8%
	Age 50	1%	1.1%
	Age +55	0%	0%
The amounts recognised in the Statement of Financial Position were determined as follows:			
Present value of funded obligations		4 679 345	4 276 901
Fair value of plan assets		-	-
Liability in the Statement of Financial Position		4 679 345	4 276 901
Disclosure:			
Non current		4 057 577	4 133 026
Current		621 768	143 875
		4 679 345	4 276 901
Movements in the defined benefit obligation is as follows:			
Balance at beginning of the year		4 276 901	2 579 000
Current service cost		598 020	503 000
Interest cost		369 943	219 000
Benefit payments		(143 875)	(43 000)
Actuarial gains/(losses)		(421 644)	1 018 901
Balance at end of year		4 679 345	4 276 901

Notes to the Financial Statements

	2017 R	2016 R

16. Payables from exchange transactions

	2017 R	2016 R
Trade payables	61 977 138	62 699 566
Retentions	5 004 631	4 095 578
Other creditors	6 426 957	3 004 309
Deposits received	368 620	321 795
	73 777 346	**70 121 248**

17. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

	Financial liabilities at amortised cost	Total
2017		
Other financial liabilities	8 889 018	8 889 018
Finance leases obligation	295 170	295 170
Trade and other payables	73 777 346	73 777 346
	82 961 534	**82 961 534**
2016		
Other financial liabilities	9 596 135	9 596 135
Finance leases obligation	11 754	11 754
Trade and other payables	70 121 248	70 121 248
	79 729 137	**79 729 137**

18. Revenue

	2017 R	2016 R
Service charges	26 054 198	24 422 179
Interest received (trading)	3 552 834	2 335 786
Rental income	273 789	272 356
Recoveries	43 497	8 664
Sundry Revenue	594 169	491 960
Interest received - investment	4 182 193	1 788 345
Government grants & subsidies	222 527 430	198 166 469
Public contributions and donations	2 000	220 000
Gain on disposal of investment property	2 146 534	-
Gain on disposal of property, plant and equipment	8 708	-
	259 385 352	**227 705 759**

The amount included in revenue arising from exchanges of goods or services are as follows:

	2017 R	2016 R
Service charges	26 054 198	24 422 179
Interest received (trading)	3 552 834	2 335 786
Rental income	273 789	272 356
Recoveries	43 497	8 664
Sundry Revenue	594 169	491 960
Interest received - investment	4 182 193	1 788 345
	34 700 680	**29 319 290**

Notes to the Financial Statements

18. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

	2017 R	2016 R
Transfer revenue		
Government grants & subsidies	222 527 430	198 166 469
Public contributions and donations	2 000	220 000
	222 529 430	**198 386 469**

19. Service charges

	2017 R	2016 R
Sale of water	22 321 276	20 862 490
Sewerage and sanitation charges	3 732 922	3 559 689
	26 054 198	**24 422 179**

Notes to the Financial Statements

	2017 R	2016 R
20. Government grants and subsidies		
Equitable share	67 837 375	60 132 000
DWAF Drought Relief	-	10 462 299
Capital Projects Grants	90 390 911	57 042 804
Levies Replacement Grant	61 322 625	60 795 000
Municipal Systems Improvement Grant	-	1 127 212
Financial Management Grant	1 500 000	1 500 000
Skills Development Grant	159 019	138 996
IGR Grant -Government Expert	-	264 812
Rural Transport Roads Grant	-	2 007 000
Department of Public Works Grant	896 063	1 252 000
Call Centre Grant	-	534 958
Shared services - Planning Grant	400 000	301 988
Water Operating Subsidy Grant	-	2 169 820
Environmental Grant	21 437	437 580
	222 527 430	**198 166 469**

Equitable Share
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant		
Balance unspent at beginning of year	2 195 225	30 944
Roll over not approved	-	(30 944)
Prior year adjustment	-	2 195 225
Current-year receipts	39 577 000	40 119 000
Transfer from Disaster Management Centre	-	620 428
Transfer from Boreholes Refurbishment	-	699 837
Conditions met - transferred to revenue	(40 401 703)	(41 439 265)
	1 370 522	**2 195 225**

Conditions still to be met - remain liabilities (see note 14).

Skills Development Grant		
Balance unspent at beginning of year	-	-
Current-year receipts	159 019	138 996
Conditions met - transferred to revenue	(159 019)	(138 996)
	-	**-**

Shared Services Grant		
Balance unspent at beginning of year	-	51 988
Current-year receipts	400 000	250 000
Conditions met - transferred to revenue	(400 000)	(301 988)
	-	**-**

Conditions still to be met - remain liabilities (see note 14).

Rural Transport Road Grant		
Balance unspent at beginning of year	-	-
Current-year receipts	3 451 000	2 007 000
Conditions met - transferred to revenue	(3 067 612)	(2 007 000)
	383 388	**0**

Amajuba District Municipality
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

	2017 R	2016 R

20. Government grants and subsidies (continued)

Governance Expert Grant

	2017 R	2016 R
Balance unspent at beginning of year	-	264 812
Conditions met - transferred to revenue	-	(264 812)
	-	**-**

Public Works (EPWP) Grant

	2017 R	2016 R
Balance unspent at beginning of year	-	-
Roll over not approved	-	-
Current-year receipts	1 497 000	1 252 000
Conditions met - transferred to revenue (operating)	(896 063)	(1 252 000)
Conditions met - transferred to revenue (capital)	(567 555)	
	33 382	**-**

Massification Grant

	2017 R	2016 R
Balance unspent at beginning of year	16 796	16 796
Conditions met - transferred to revenue	-	-
	16 796	**16 796**

Conditions still to be met - remain liabilities (see note 14).

Municipal Systems Improvement Grant

	2017 R	2016 R
Balance unspent at beginning of year	-	240 804
Roll over not approved	-	(53 592)
Current-year receipts	-	940 000
Conditions met - transferred to revenue	-	(1 127 212)
	-	**-**

Notes to the Financial Statements

20. Government grants and subsidies (continued)

	2017 R	2016 R
Disaster Management Centre Grant		
Balance unspent at beginning of year	-	620 428
Current-year receipts	-	-
Transfer to MIG	-	(620 428)
Conditions met - transferred to revenue	-	-
	-	**-**

	2017 R	2016 R
WC/WD Management Grant		
Balance unspent at beginning of year	1 453	1 453
Conditions met - transferred to revenue	-	-
	1 453	**1 453**

Conditions still to be met - remain liabilities (see note 14).

	2017 R	2016 R
Boreholes Refurbishment Grant		
Balance unspent at beginning of year	-	**699 837**
Transferred to MIG	-	(699 837)
	-	**-**

	2017 R	2016 R
Finance Management Grant		
Balance unspent at beginning of year	-	57 464
Roll over not approved	-	(57 464)
Current-year receipts	1 500 000	1 500 000
Conditions met - transferred to revenue	(1 500 000)	(1 500 000)
	-	**-**

	2017 R	2016 R
ACIP Grant - Call Centre		
Balance unspent at beginning of year	-	534 958
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(534 958)
Other	-	-
	-	**-**

	2017 R	2016 R
Councillors Training Grant IDP		
Balance unspent at beginning of year	-	-
Current-year receipts	350 000	-
Conditions met - transferred to revenue	-	-
Other	-	-
	350 000	**-**

	2017 R	2016 R
20. Government grants and subsidies (continued)		
Councillors Trainning Grant		
Balance unspent at beginning of year	79 388	79 388
Conditions met - transferred to revenue	-	-
	79 388	**79 388**
Conditions still to be met - remain liabilities (see note 14).		
DWA - Water Service Infrastructure Grant - WSIG		
Balance unspent at beginning of year	1 249 585	4 210 985
Roll over not approved	(8 649 585)	(259 000)
Current-year receipts	49 400 000	19 825 000
Prior year adjustment	-	(7 400 000)
Transferred from Bulk Water Goedehoop	3 523 861	-
Conditions met - transferred to revenue	(45 523 861)	(15 127 400)
	-	**1 249 585**
Water Operating Subsidy Grant		
Balance unspent at beginning of year	**830 180**	**-**
Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	(830 180)	(2 169 820)
	0	**830 180**
Conditions still to be met - remain liabilities (see note 14).		
Bulk Water - Goedehoop - Grant		
Balance unspent at beginning of year	**3 523 861**	**-**
Current-year receipts	-	4 000 000
Transferred to SWIG	(3 523 861)	(476 139)
	(0)	**3 523 861**
Conditions still to be met - remain liabilities (see note 14).		
Cogta - Disaster Management Centre Grant		
Balance unspent at beginning of year	**5 000 000**	**-**
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	**-**	**-**
	5 000 000	**5 000 000**
Conditions still to be met - remain liabilities (see note 14).		
Environmental Grant		
Balance unspent at beginning of year	**562 420**	**-**
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	(21 437)	(437 580)
	540 983	**562 420**
Conditions still to be met - remain liabilities (see note 14).		

Notes to the Financial Statements

	2017 R	2016 R

21. Other revenue

Rental income - third party	273 789	272 356
Recovery - Telephone	43 497	8 664
Sundry income	594 169	491 960
	911 455	**772 980**

22. General expenses

Advertising	136 745	131 888
Arts & Culture	-	112 800
Assessment rates & municipal charges	722 586	826 748
Auditors remuneration	2 158 666	2 005 198
Bank charges	235 586	166 718
Budget & IDP roadshows	325 007	158 117
Cleaning	127 372	113 045
Consulting and professional fees	847 843	3 439 457
Consumables	471 568	715 279
Debt collection	-	51 126
Entertainment	36 736	19 360
Insurance	501 207	779 691
Conferences and seminars	4 451	109 077
Audit commitee costs	153 850	193 742
Chemicals	892 312	667 714
Lease rentals on operating lease	267 101	348 816
Fleet	2 328 110	2 400 121
Magazines, books and periodicals	134	96
Membership fees	915 426	754 094
Postage and courier	624 092	656 938
Printing and stationery	96 599	143 325
Professional fees - VAT	-	777 574
Project initiation	18 805	1 111 024
Promotions and marketing	55 792	89 371
Protective clothing	223 007	16 141
License fees	55 004	143 170
Staff welfare	65 220	38 505
Telephone and fax	1 043 109	937 483
Town planning support	356 060	196 785
Training	669 049	370 441
Travel - local	1 169 393	1 522 081
Electricity	4 681 696	4 388 623
Tourism development programmes	-	10 972
Water analysis	704 661	957 295
General expenditure	208 390	227 373
ICT management	1 370 940	2 979 246
Road asset management	-	1 810 526
Call centre management	1 391 324	1 878 840
Senior citizens programmes	-	59 560
Disabled programme	-	8 000
Gender programme	-	17 500
Kwanaloga games	-	1 022 728
Community assets	30 320 672	18 829 194
GIS implementation	-	72 992
Disaster management programmes	167 543	35 651
	53 346 056	**51 294 425**

Notes to the Financial Statements

23. Operating surplus

Operating surplus for the year is stated after accounting for the following:

	2017 R	2016 R
Operating lease charges		
Equipment - contractual amounts	267 101	348 816
Loss on scrapping of property, plant and equipment	0	430 260
Depreciation and amortisation of fixed assets	28 861 762	28 791 450
Impairment of property, plant and equipment	760 494	6 641 627
Employee costs	80 727 101	81 375 498
Newly identified assets at fair value	-	-
Gain on disposal of investment property	2 146 534	-
Gain on disposal of property, plant and equipment	8708	-

Amajuba District Municipality
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

24. Employee related costs

	2017 R	2016 R
Basic	54 430 706	50 405 996
Bonus	5 898 898	3 726 523
Medical aid - company contributions	3 427 749	3 030 867
UIF and SDL	1 078 324	1 006 834
Leave pay provision charge	(1 892 423)	4 285 628
Defined contribution plans	6 438 961	6 101 903
Travel, motor car, accommodation, subsistence and other allowances	5 461 278	5 447 965
Overtime payments	4 265 406	4 649 735
Housing benefits and allowances	353 988	277 445
Bargaining council contribution	15 661	14 876
Standby Allowance	739 248	716 453
Shift Allowance	84 033	67 248
13 Cheque accrual	425 272	1 644 025
	80 727 101	**81 375 498**

Remuneration of Municipal Manager

	2017 R	2016 R
Annual Remuneration	680 211	1 145 007
Car Allowance	-	183 000
Cellphone allowance	10 500	-
Housing allowance and annual bonus	-	275 786
	690 711	**1 603 793**

Remuneration of Chief Financial Officer

	2017 R	2016 R
Annual Remuneration	672 129	616 021
Cellphone allowance	12 000	13 500
	684 129	**629 521**

Corporate Services

	2017 R	2016 R
Annual Remuneration	-	198 750
Car Allowance	-	-
Cellphone allowance	-	4 500
	-	**203 250**

Director of Engineering Services

	2017 R	2016 R
Annual Remuneration	755 391	666 012
Car Allowance	172 089	151 727
Cellphone allowance	18 000	-
Housing allowance and annual bonus	252 961	225 200
	1 198 441	**1 042 939**

Director of Development and Planning

	2017 R	2016 R
Annual Remuneration	847 150	746 914
Car Allowance	260 859	229 994
Cellphone allowance	18 000	-
Housing allowance	74 892	66 031
	1 200 901	**1 042 939**

Notes to the Financial Statements

24. Employee related costs (continued)

Director of Community Services

	2017 R	2016 R
Annual Remuneration	937 172	826 284
Car Allowance	163 927	144 531
Cellphone allowance	18 000	-
Annual bonus	78 098	72 124
	1 197 197	**1 042 939**

25. Remuneration of councillors

	2017 R	2016 R
Mayor	680 141	685 377
Deputy Mayor	520 263	342 577
Executive Committee Members	761 642	581 089
Speaker	552 552	536 311
Councillors	2 202 832	2 200 707
	4 717 430	**4 346 061**

In-kind benefits
The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.
The Mayor has use of a Council owned vehicle for official duties and has four full time driver/bodyguards.

26. Investment revenue

	2017 R	2016 R
Interest revenue		
Banks	4 182 193	1 788 345

27. Depreciation and amortisation

	2017 R	2016 R
Property, plant and equipment	27 922 809	27 827 920
Intangible assets	938 953	940 620
Investment property	-	22 910
	28 861 762	28 791 450

28. Finance costs

	2017 R	2016 R
Other interest payable	936 618	935 897

29. Auditors' remuneration

	2017 R	2016 R
Fees	2 158 666	2 005 198

30. Contracted services

	2017 R	2016 R
Security Services	3 549 199	3 173 459
Pest control and hygiene services	151 330	179 504
Water Tanker Services	12 239 840	12 649 657
VIP Desludging	3 653 147	3 652 778
	19 593 516	**19 655 398**

Notes to the Financial Statements	2017 R	2016 R

31. Bulk purchases

Water	13 942 643	13 517 542

32. Cash generated from (used in) operations

(Deficit) Surplus for the year	41 664 436	(47 033 648)
Adjustments for:		
Depreciation : Property plant and equipment	28 861 763	27 827 920
Depreciation : Investment property	0	22 910
Impairment : Intangible assets	0	940 620
Impairment : Property, plant and equipment	760 494	6 641 627
(Gain) Loss on disposal of property, plant and equipment	(8 709)	430 260
Donated assets - Sportsfields	0	2 953 939
Gain on disposal of investment property	(2 146 534)	-
Changes in net assets relating to prior year	-	-
Movements in provisions	(2 587 952)	5 335 662
Changes in working capital:		
Receivables from non-exchange transactions	336 635	242 692
VAT receivable	(813 358)	2 904 335
Consumer debtors	(4 560 676)	2 858 899
Inventory	(1 443 522)	310 408
Payables from exchange transactions	3 656 098	2 460 984
Unspent conditional grants and receipts	(5 682 996)	11 853 826
Cash generated from (used in) operations	**58 035 679**	**17 750 434**

33. Commitments
Authorised capital expenditure

Already contracted for		
Property, plant and equipment	72 245 590	132 874 404
Not yet contracted for and authorised by accounting officer		
Property, plant and equipment	47 821 410	28 867 500

34. Contingencies
Litigation is in the process against the municipality relating to a dispute with a service provider who alleges that the municipality has contravened a contract by terminating the contract prior to the termination, and is seeking damages of R3,900,000.

The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and therefore no provision has been made in the financial statements.
This is a dispute with former municipal attorneys, Phungo Inc. who allege that the municipality should settle the bill of cost amounting to R172,000 which the municipality regards as excessive. The municipality's lawyers and management consider the likelihood of the action against the the municipality being successful as unlikely, and therefore no provision has been made in the financial statements.
PM Mchunu's services were terminated and the matter is currently at the Labour Court. The employee claims a settlemt of R340, 280, being 12 times his annual salary.The municipality's lawyers consider the likelihood of the action against the municipality being successful as unlikely.
TW Dube was retired in October 2015 and after retirement she brought documents to prove that she had not reached the retirement age. The matter is at the Labour Court. The employee claims a settlement amount of R681,780 being 5 times her annual salary at retirement. The likelihood of the action against the municipality being successful is unlikely.

35. Related parties
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Relationships

Shareholder with joint control uThukela Water(Proprietary) Limited

The entity, uThukela Water (Pty) Ltd, is jointly owned and controlled by Amajuba DM, Newcastle LM and uMzinyathi DM and supplies the municipality with bulk water services.

Related party balances
Amounts included in Trade Receivables (Trade Payables) regarding related parties

uThukela Water(Proprietary) Limited	(31 652 655)	(34 051 293)

Related party transactions
Purchases from (sales to) related parties

uThukela Water (Proprietary) Limited	15 386 165	13 517 542

Notes to the Financial Statements	**2017 R**	**2016 R**

36. Prior year errors

The adjustment of prior year errors resulted from incorrect and incomplete accounting.
Adjustment for errors in the prior year is as follows:

	Previously reported	**Restated**
Statement of Financial Position	**R**	**R**
Sundry Debtors		
- Proceeds from sale of vehicles not accounted for	2 880 760	3 243 760
Unspent conditional grants and receipts		
- Incorrect accounting in the 2015 and 2016 financial years	(18 663 683)	(13 458 908)
	(15 782 923)	(10 215 148)
Accumulated surplus	586 931 963	592 499 738

Amajuba District Municipality
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

	2017 R	2016 R

37. Risk management

Capital risk management

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 12, cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position.
Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.
There are no externally imposed capital requirements.

	2017	2016
Total borrowings		
Finance lease obligation	295 170	11 754
Other financial liabilities	8 889 018	9 596 135
	9 184 188	**9 607 889**
Less: Cash and cash equivalents	(21 008 587)	(17 989 672)
	(11 824 399)	(8 381 783)
Total equity	599 803 372	592 499 738
Total capital	**587 978 973**	**584 117 955**

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits and cash equivalents. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

38.Going concern

We draw attention to the fact that at 30 June 2017, while the municipality had an accumulated surplus of R599 803 372, the current liabilities exceeded the current assets by R37 620 382.
The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that both Provincial and National government have neither the intention nor the need to liquidate or curtail materially the scale of funding of the municipality.

39. Unauthorised expenditure

	2017	2016
Balance brought forward	106 578 213	53 203 123
Unauthorised expenditure	-	674 011
Budget overspending	35 506 915	52 701 079
	142 085 128	**106 578 213**

Notes to the Financial Statements

	2017 R	2016 R

39. Unauthorised expenditure (continued)

The unauthorised expenditure relates to overspending of the budget.
The matter is still under investigation and appropriate action will be taken when the matter is finalised
There is currently no disciplinarhy action taken in respect to this unauthorised expenditure

40. Fruitless and wasteful expenditure

	2017 R	2016 R
Fruitless and wasteful expenditure	**48 641**	**48 779**

Fruitless and wasteful expenditure relates to penalties incurred because of late payments.

41. Irregular expenditure

	2017 R	2016 R
Opening balance	50 069 688	50 069 688
Add: Irregular Expenditure - current year	3 133 423	-
Less: Amounts condoned	0	0
	53 203 111	**50 069 688**

Analysis of expenditure awaiting condonation (under investigation)

	2017 R	2016 R
Current year	3 133 423	-
Prior years	50 069 688	50 069 688
	53 203 111	**50 069 688**

Details of irregular expenditure – current year
See Note 43

Details of irregular expenditure condoned

	2017 R	2016 R
Exceptional cases, single provider and some emergencies	-	-
Acting Allowance payments	-	-
	-	**0**

Details of irregular expenditure recoverable (not condoned)
None -

Notes to the Financial Statements

	2017 R	2016 R

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2017 R	2016 R
Current year subscription / fee	915 426	754 094
Amount paid - current year	(915 426)	(754 094)
	-	-

Audit fees

	2017 R	2016 R
Current year subscription / fee	2 158 666	2 005 198
Amount paid - current year	(2 158 666)	(2 005 198)
	-	-

PAYE and UIF

	2017 R	2016 R
Current year subscription / fee	15 599 043	13 757 638
Amount paid - current year	(15 599 043)	(13 757 638)
	-	-

Pension and Medical Aid Deductions

	2017 R	2016 R
Current year subscription / fee	15 884 055	12 371 196
Amount paid - current year	(15 884 055)	(12 371 196)
	-	-

VAT

	2017 R	2016 R
VAT receivable	6 102 938	5 289 580

All VAT returns have been submitted by the due date throughout the year.

43. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations (SCM Deviations)

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.
The expenses incurred as listed hereunder have been condoned.

Incident	2017 R	2016 R
Expenditure on emergency repairs	819 137	685 517
Exceptional cases where it is impractical or impossible to follow the official procurement processes	693 112	614 247
Expenditure on goods or services which are produced by, or available from, a single provider only	1 621 174	136 294
	3 133 423	**1 436 058**

Notes to the Financial Statements

	2017 R	2016 R

44. Utilisation of Long-term liabilities reconciliation

	2017 R	2016 R
Long-term liabilities raised	-	-
Used to finance property, plant and equipment	-	-
	-	**-**

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

45. Water losses

The water losses are as follows:

	2017 R	2016 R
Kilolitres	2 760 503	2 536 591
Valued at cost	R 21 531 925	R 19 455 650

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.
Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.
The services and goods as detailed above were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The deviations were reported to Council and ratified by Council as per the municipality's Supply Chain Management Policy.

47. Services in-kind

During the year Provincial Treasury assigned resources to the municipality to provide financial management support, which support included preparation of the financial statements and assisting with introducing a new asset management system. This was in accordance with Provincial Treasury’s mandate to assist and support municipalities in strengthening and building their financial management capacity.
These services in-kind are not considered significant to the municipality’s operations and/or service delivery objectives.

48. Repairs and maintenance

Repairs and maintenance incurred to maintain Property, Plant and Equipment is represented as follows:

	2017 R	2016 R
Water	1 937 587	2 290 544
Sewerage	950 197	5 227 742
Buildings	203 268	211 486
Plant and machinery	682 372	1 580 666
Vehicles	259 316	247 087
	4 032 740	**9 557 525**